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SUBJECT: DAS DOUG HENGEL'S MEETINGS WITH EU OFFICIALS

¶1. (SBU) Summary. In September 11 meetings with EU officials visiting DAS Doug Hengel learned that energy security is getting more focused attention at high levels with many initiatives underway. While the process going forward will be complex, the EU is focused on internal reforms (with competition rules that would limit Gazprom's ability to gobble up assets, although not cut them out completely), new energy security proposals in November, the Southern Corridor (with Van Aarsten going to Turkey soon for a heart-to-heart with Erdogan plus a gas security proposal) and perhaps a way to move gas to Bulgaria and north not based on Nabucco (a pipeline that brings gas from Russia).

¶2. (SBU) In the meetings, DAS Hengel pushed the need for high level European attention to Azerbaijan and Turkmenistan so they feel a strategic connection, cautioning that without this attention there may be no Southern Corridor. EU officials acknowledge this need, but the only indication given of more attention was possible visit by Barroso to the region in early November. The Europeans face many challenges going forward, including possible complications from disagreements on climate change proposals, and difficulties with Italy (they seem to be seen as more of a problem than Germany), and Turkey unless they become more reasonable. End Summary.

#### Energy Security and Competition Policy

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¶3. (SBU) On September 11 DAS Hengel met with Ruud Boogert, Member of Competition Commissioner Kroe's Cabinet. Boogert described the EU's efforts to form a single internal market for gas and electricity through the proposed "Third Energy Package". He said the Commission's goal is to increase competition, achieve fair prices for consumers, and achieve solidarity in case of gas supply disruptions. Boogert emphasized that October will be a very important month for the Third Energy Package with the Energy Council scheduled to meet mid-month. If the October Council has a positive result, Boogert is hopeful an agreement can be reached with Parliament before the end of this year. Boogert reiterated that the cutoff for action on this package is March 2009, after which the Parliament will be going into the election cycle.

¶4. (SBU) The Council reached general agreement on the Package in June, but there are still some things member States do not agree on. Grouped together, these objections from member states could form a blocking minority. Boogert said one of the issues being debated in the Council is the "Third Country Clause", commonly referred to as the "Gazprom Clause." Boogert believes the text of this measure is evolving in an attempt by member states to level the playing field, both within the EU and externally. The original clause was targeted externally, but the latest Council

version attempts to make sure that an unbundled energy company in one member state cannot be acquired by an integrated energy company from another member state.

15. (SBU) Boogert said that the Commission believes more investment and interconnection of the gas system is very important for the EU's security of supply. He believes that private investment will be available for this sector once the EU establishes a more unified cross-border regulatory environment. Boogert feels increased investment will also depend on further consolidation in the markets. He expects progress on the electricity portions of the Third Energy Package, as electricity is less controversial than gas.

16. (SBU) Asked about using Competition authorities to go after Russia's Gazprom, Boogert stressed that there is a very high burden of proof if the Competition Commissioner wants to go after a company because of its dominant position in the market. He also stressed that member states still hedge EU and national interests, working together with the EU while at the same time making private deals with the Russians to insure their own energy supply. According to Boogert, the only thing the Commission can do is act when Gazprom tries to take over a European interest and then it must be considered on a case by case basis.

17. (SBU) Boogert described Piebalgs interest in Nabucco as important. One of the challenges Nabucco faces is finding a sufficient upstream gas supply. The Commission has been talking with the European Investment Bank (EIB) about how to insure against the political risk for the pipeline, given developments in Georgia. Boogert believes that the EIB may

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be willing to fulfill this role. This would, however, need approval by the EU Council. Boogert also pointed out that the EU views the lack of a transit deal with Turkey as the major stumbling block in the way of Nabucco.

#### The Southern Corridor

18. (SBU) In a meeting with Brendan Devlin, assistant to the EU's Nabucco Coordinator Jozias Van Aartsen, Devlin outlined current EU thinking on the Southern Corridor strategy. Van Aartsen's focus remains on a transit agreement with Turkey. Devlin was not confident, however, that the EU is close to a breakthrough. Over the summer the Commission had reached what it considered to be a working level agreement with the Turkish side, involving the &Caspian Development Corporation8 concept as a way to aggregate demand and insure sufficient quantities of gas for Turkey and Europe. According to Devlin, talks fell apart when the Turkish side re-demanded a 15 percent take-off provision and the Energy Ministry started talking about needing all Azeri gas for the domestic Turkish market.

19. (SBU) Devlin said the EU's will also consider the rival White Stream project that would bring Caspian gas to Europe via Ukraine. Van Aartsen plans to make some public statements in late October about the importance and value of the White Stream project.

110. (SBU) Devlin also raised the possibility of using existing pipelines in Romania and Bulgaria to achieve the effect of Nabucco, without actually building Nabucco. There are existing gas pipelines around the Black Sea in Romania and Bulgaria that currently transport Russian gas from north to south. Devlin said he is investigating whether or not these pipelines could be reversed, but much depends on who owns these pipelines - a subject which Devlin described as "murky at best." These pipelines could conceivably transport as much as 30 bcm of gas and could be used under a "back-haul" scheme. Under this scenario, a European company could contract for Azeri gas through a swap arrangement with Turkey. The Azeri gas would actually flow to Turkey, while the European customer would receive Russian gas originally

destined for Turkey.

¶11. (SBU) Addressing the rumor that Energy Commissioner Piebalgs would be taking over Van Aartsen's role as Nabucco Coordinator, Devlin said that Van Aartsen would continue as Coordinator but that Piebalgs would oversee the process. Devlin described the relationship between the two as a "good cop, bad cop. According to Devlin, Van Aartsen has agreed to make the harsh public statements in an attempt to get things moving, while Piebalgs would reassure the Turks about the importance of the Southern Corridor.

¶12. (SBU) Director General for Transportation and Energy (DG-TREN) Mathias Ruete confirmed that Piebalgs is looking to visit Ankara in November. He was not optimistic that a deal could be reached this year, and said it may fall upon the Czech Presidency to engage the Turks during the new year. Ruete said that the French Presidency is seeking to devise a final agreement on the Third Energy Package during the October European Council meeting, which the Council would then present to the Parliament as a final offer. He said the Dutch and the British understand the importance of the third country (Gazprom) clause but fear takeovers of their respective energy industries by other (European) energy companies that would remain vertically integrated. He urged DAS Hengel to stress the importance of unbundling to Dutch and British officials. On the Climate and Energy Package, he noted that the Poles (among others) have indicated that they cannot accept the green house gas (GHG) emissions reductions targets in the current draft, and the Commission was working on a solution. He was pleased with the cooperation on biofuels, but DAS Hengel stressed the need for U.S. and EU experts to compare notes on sustainability criteria.

¶13. (SBU) In meetings with Matthew Baldwin and Steven Everts, advisors to Barroso and Solana respectively, DAS Hengel stressed the need for high-level EU engagement with Azeri and Turkmen leaders. He said that Presidents Aliyev and Berdimuhamedow were vocal about the lack of high-level European engagement, without which, the Southern Corridor would be in jeopardy. Baldwin stated that plans were being considered for Barroso to visit Baku and Ashgabat later this fall, although no commitment had been made. He believes that Turkey will be more cooperative following the invasion of

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Georgia. Everts said that Solana does not plan to travel to the region but rather planned to discuss energy security with the Kazakh and Turkmen Foreign Ministers in Paris at the September 17-18 EU-Central Asian Ministerial (see Paris 1777) and with the Azeri Foreign Minister in New York during UNGA. Everts said that Solana would likely attend the Nabucco Summit in Budapest, scheduled for January 26-27, 2009.

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